



Tip of the Week

From “Wall Street to Main Street”

In these challenging economic times, one frequently used phrase is “from Wall Street to Main Street”. This phase has many meanings and is used in a multitude of ways to describe how what is happening on Wall Street the “stock market” affects Main Street. Each week, in conversations with Business Brokers across the US and the globe, I'm asked my opinion of “from Wall Street to Main Street” with regards to Business Brokerage. My thoughts continue to develop as I watch this pervasive global credit crisis unfold. In general, I see the following things reflected on Main Street:

Business owners are not able to obtain working capital loans or find that they have to “jump through more hoops” than ever before to get even a small loan or line of credit. And, for years, small business owners have used their home equity line to provide working capital for their business. Mortgage companies are starting to recall or close home equity lines creating a problem for some small business owners.

Entrepreneurs are known for positive thinking, risk taking, and often starting on a shoe string and operating under capitalized businesses. In a good economy, they may beat the odds, but in a declining economy the odds become more substantial. I think we will see an even higher failure rate of new businesses. And, from a business brokerage standpoint, it's a real challenge, if not close to impossible, to sell a new business that has failed to thrive. Often, a small fraction of the cost of inventory and maybe a few cents on the dollar for build out is the best one can hope for.

Businesses across various industries are not seeing just small decreases in gross revenues but large drops almost over night. As a business begins to lose gross revenue, the drop below the break-even point, can happen quickly. Business Brokers should request monthly financials from the owner and pay close attention to revenues, break-even point, and normal operating ratios. As a business declines, it's very hard for owners to lay employees off and make other hard decisions. Have a conversation at least each month with your seller clients about last month's numbers, the current value of the business, and what decisions need to be made to keep the business operating. And, what adjustments need to be made to the offering price and terms to increase the chances of selling the business.

We will probably see the number of small business listings sold decrease from one out of six to one out of seven or eight. This will be due in part to more businesses closing and businesses on the decline becoming unsalable. Therefore, as business brokers, we have to be even more protective of our time and resources and not work on marginal listings. It's hard to give up, but continuing to work on business listings that have a very small chance of selling only gives the seller false hope and puts the business broker's financial future in jeopardy.

There will be more sellers wanting to sell their business but the credit crisis will make it harder, even for qualified buyers, to get financing terms that will make it possible to buy a business. If a lender will only provide financing if a buyer has 20 or 30 % or more for a down payment, how many buyers will qualify?

Therefore, seller financing is even more of a necessity. I currently, am not willing to take, even a good listing, if the seller will not provide a reasonable level of financing with realistic terms. There's a saying in commercial real estate, "if you can finance it, you can sell it". As business brokers, we should constantly remind ourselves and our seller clients this holds true in the sell of businesses as well.

The declining gross revenues and profit coupled with the lack of available acquisition financing will result in a softer market with lower multiples and sales prices. I agree with many economists that it will take at least a couple if not several years for a substantial rebound to take place. Many business owners may need to continue to operate their business for a number of years in order to recapture revenues and expected sales price.

In review, I realize it sounds like "gloom and doom" however, that is not the intent. I remain cautiously optimistic but think we must continue to take a realistic look at our economic environment and make adjustments to the way we practice to ensure the financial success of our business brokerage firms and our personal financial stability.

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